

THREE RIVERS SPECIAL SERVICES COOPERATIVE

AUDIT REPORT

JUNE 30, 2010

**THREE RIVERS SPECIAL SERVICES COOPERATIVE  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board  
Three Rivers Special Services Cooperative  
Phillip, South Dakota

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Three Rivers Special Services Cooperative (the Coop), Phillip, South Dakota, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Coop's basic financial statements and have issued my report thereon dated August 18, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing my audit, I considered the Coop's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Coop's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Coop's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance

that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

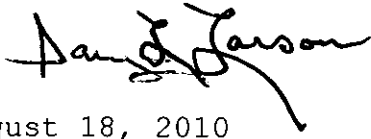
I consider the deficiency described in the Schedule of Current Audit Findings as item number 2010-01 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Three Rivers Special Services Cooperative's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

The Coop's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit the Coop's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the South Dakota Legislature, the governing board and management of Three Rivers Special Services Cooperative and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "David L. Larson". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

August 18, 2010

**THREE RIVERS SPECIAL SERVICES COOPERATIVE  
SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010**

Prior Audit Findings relative to Financial Statement Audit:

FINDING NO. 2008-01 and 2009-01

A material weakness was reported due to a lack of segregation of duties. This finding was first noted by the present auditor in 1992.

Status as of June 30, 2010: The condition noted in prior audits is still applicable.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**  
**JUNE 30, 2010**

FINDING NUMBER 2010-01

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA: To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT: Inaccurate financial statements and/or misappropriation of funds could result from a lack of segregation of duties.

RECOMMENDATION: Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

AUDITEE RESPONSE: The Three Rivers Special Services Cooperative agrees with the audit finding. The Governing Board and Director are responsible for the corrective action plan for this comment. This condition is a result of the size of the Three Rivers Special Services Cooperative which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Three Rivers Special Services Cooperative has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Three Rivers Special Services Cooperative is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures, and payroll functions continues to exist.

# Gary L. Larson, CPA

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Three Rivers Special Services Cooperative  
Phillip, South Dakota

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Three Rivers Special Services Cooperative, Phillip, South Dakota, as of June 30, 2010, and for the fiscal year then ended, which collectively comprise their financial statements as listed in the Table of Contents. These financial statements are the responsibility of Three Rivers Special Services Cooperative's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Coop's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

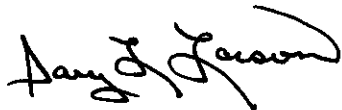
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Three Rivers Special Services Cooperative as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with Government Auditing Standards, I have also issued a report dated August 18, 2010 on my consideration of Three Rivers Special Services Cooperative's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audits.

The budgetary comparison information on pages 31 through 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The Three Rivers Special Services Cooperative has not presented the Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.



August 18, 2010

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$360,525
Investments	215,318
Receivables	385,086
Capital Assets:	
Other capital assets, net of depreciation	<u>0</u>
 TOTAL ASSETS	 <u><u>\$960,929</u></u>
 LIABILITIES:	
Payables	\$73,768
Noncurrent Liabilities:	
Due in less than one year	2,656
Due in more than one year	<u>5,581</u>
 TOTAL LIABILITIES	 <u>82,005</u>
 NET ASSETS:	
Invested in capital assets	0
Unrestricted	<u>878,924</u>
 TOTAL NET ASSETS	 <u>878,924</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$960,929</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>	
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>
Governmental Activities:			
Instruction	\$55,750	\$0	\$57,447
Support services	1,658,415	1,599,604	16,408
Community services	316,877	0	327,789
Total Governmental Activities	<u>\$2,031,042</u>	<u>\$1,599,604</u>	<u>\$401,644</u>

GENERAL REVENUES:

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements are an  
integral part of this statement.

NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

---

Governmental  
Activities

---

\$1,697

(42,403)

10,912

---

(\$29,794)

---

10,629

35,418

---

46,047

---

16,253

862,671

---

\$878,924

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

	General Fund
ASSETS:	
Cash and cash equivalents	\$360,525
Accounts receivable	54,654
Due from other governments	330,432
Investments	215,318
	<hr/>
TOTAL ASSETS	\$960,929
	<hr/>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$35,088
Contracts payable	33,709
Payroll deductions and withholding and employer matching payable	4,971
	<hr/>
TOTAL LIABILITIES	73,768
	<hr/>
Fund balances:	
Unreserved	887,161
	<hr/>
TOTAL FUND BALANCE	887,161
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$960,929
	<hr/>

The accompanying notes to financial statements are an  
integral part of this statement.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT**  
**OF NET ASSETS**  
**JUNE 30, 2010**

Total Fund Balances-Government Funds	\$887,161
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Long-term liabilities, including accrued leave and other post-  
employment benefits not due and payable in the current  
and therefore are not reported in the funds.

(8,237)

Net Assets-Governmental Funds	<u><u>\$878,924</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Revenues:	General Fund
Revenues from Local Sources:	
Earnings on deposits:	
Interest earned	\$10,629
Other revenues from local sources:	
Contracted educational services	1,599,604
Other	35,418
Revenues from Federal Sources:	
Grants-in-aid:	
Restricted grants-in-aid received from federal government through state	401,644
Total Revenue	<u>\$2,047,295</u>
Expenditures:	
Instruction:	
Special Programs:	
Other	55,750
Support Services:	
Pupils-	
Psychological	11,953
Speech pathology	199,655
Instructional staff-	
Improvement of instruction	1,055,064
General administration-	
Board of education	\$12,057

The accompanying notes to financial statements are an  
integral part of this statement.

General Fund	
	179,100
	42,350
	154,545
	<u>316,877</u>
	2,027,351

19,944

867,217

\$887,161

-14-



**THREE RIVERS SPECIAL SERVICES COOPERATIVE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

Net Changes in Fund Balances-Total Governmental Funds	\$19,944
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Amounts reported for governmental activities in the statement of  
activities are different because:

Governmental funds do not reflect the change in accrued  
leave and other post employment benefits payable, but the  
statement of activities reflects the change in accrued leave  
through expenditures.

(3,691)

Change in Net Assets of Governmental Activities

\$16,253

The accompanying notes to financial statements are an integral part of this statement.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
**JUNE 30, 2010**

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	<u><u>\$81,201</u></u>
 Liabilities:	
Funds held for others	<u><u>\$81,201</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of Three Rivers Special Services Cooperative consists of the primary government, which includes the General Fund. The reporting entity is a joint venture comprised of the following South Dakota School Districts:

<u>School District</u>	<u>Fiscal Year '10'</u> <u>Participation</u>
Bennett County	29%
Jones County	9%
Kadoka Area	21%
Lyman	21%
White River	<u>20%</u>
	<u>100%</u>

The accounting policies of the Cooperative conform to generally accepted accounting principles as applicable to governments.

b. Basis of Presentation, Basis of Accounting:

**Basis of Presentation:**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government (the Cooperative). These statements include the financial activities of the overall government. Governmental activities generally are financed through fees charged to members, intergovernmental resources, and other transactions.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the Cooperative, for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including interest, are presented as general revenues.

*Fund Financial Statement:* The fund financial statements provide information about the Cooperative funds. Separate statements for each fund are presented. The emphasis of fund financial statements is on major governmental funds.

The funds of the financial reporting entity are described below:

**Governmental Fund:**

General Fund - The general fund is the general operating fund. It is used to account for all financial resources and is considered a major fund.

**Fiduciary Funds:**

Fiduciary funds are never considered to be major funds.

Agency Fund Types - agency funds are used to account for resources held by the Coop in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

measurement of results of operations. The Coop maintains one agency fund for the purpose of a clearing account for certain member school districts to purchase health insurance from a private carrier.

c. Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the entity gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. Revenues from grants, entitlements, and donations are recognized in the fiscal year which all eligibility requirements have been satisfied.

In the fund financial statements, the governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Cooperative considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental fund.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Under the terms of grant agreements, the Cooperative funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Cooperative's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

d. Capital Assets:

Capital assets include equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of capital assets are not capitalized along with other capital asset costs.

The total June 30, 2010 balance of capital assets for governmental activities includes no assets for which the costs were determined by estimates of the original costs.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Machinery and Equipment	\$ 5,000	Straight-line	4-20 yrs

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

e. Long-term Liabilities:

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consists primarily of compensated absences.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Program Revenue Recognition

Charges for goods and services are recognized as soon as they are earned (i.e. when the goods or services have been provided).

g. Application of Net Assets:

It is the Cooperative's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The Cooperative deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to or at least 100 percent of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.



**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Investments - In general, SDCL 4-5-6 permits Cooperative funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government, either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Custodial Credit Risk - Deposits** - The risk that, in the event of a depository failure, the Cooperative deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2010, none of the Cooperative's deposits in financial institutions were exposed to custodial credit risk.

**Custodial Credit Risk - Investments** - The risk that, in the event of the counterparty to a transaction, the Coop will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

**Investments**

As of June 30, 2010, the Cooperative had the following investments:

	<u>Rating</u>	<u>Fair Value</u>
Mutual Funds:		
RBC Wealth Manager		
U. S. Government		
Securities Fund	Not Rated	<u>\$115,318</u>

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Also classified as an investment is a \$100,000 bank certificate of deposit having a one year maturity.

**Interest Rate Risk** - The Cooperative does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** - The Cooperative places no limit on the amount that may be invested in any one issuer.

3. RECEIVABLES AND PAYABLES

Neither receivables nor payables are aggregated in these financial statements. The Cooperative expects all receivables to be collected within one year.

4. INVENTORY

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

4. INVENTORY (continued)

No material inventories were on hand as of June 30, 2010.

5. DEFERRED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

6. CHANGES IN CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2010 is as follows:

Primary Government

	Balance <u>7/01/09</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/10</u>
Government Activities:				
Capital Assets				
being depreciated				
Machinery and				
Equipment	\$ 19,000	\$ -	\$ -	\$ 19,000
Less accumulated				
depreciation	<u>(19,000)</u>	<u>-</u>	<u>-</u>	<u>(19,000)</u>
Total capital assets				
being depreciated,				
net:	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

7. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities follows:

	Compensated <u>Absences</u>	<u>O.P.E.B.</u>	<u>Total</u>
Liabilities payable			
June 30, 2009	\$ 4,546	\$ -	\$ 4,546
Additions	2,345	2,926	5,271
Payments	<u>(1,580)</u>	<u>-</u>	<u>(1,580)</u>
Liabilities payable,			
June 30, 2010	<u>\$ 5,311</u>	<u>\$ 2,926</u>	<u>\$ 8,237</u>
Amount due in one year	<u>\$ 2,656</u>	<u>\$ -</u>	<u>\$ 2,656</u>

Liabilities payable at June 30, 2010 are comprised of the following:

Compensated Absences:	
Vacation leave	\$5,311
Other Post Employment Benefits (OPEB)	
(See note 11 for further explanation)	<u>2,926</u>
Total	<u>\$8,237</u>
These liabilities are paid from the General Fund.	

8. RETIREMENT PLAN

All employees, working more than 20 hours per week, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

8. RETIREMENT PLAN (continued)

publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The Cooperative's share of contributions to the SDRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$39,716, \$38,377, and \$48,453 respectively, equal to the required contributions each year.

9. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2010, the cooperative managed its risks as follows:

Employee Health Insurance:

The Cooperative obtains health insurance from a commercial insurance carrier. This policy began in fiscal year 2009 and settled claims have not exceeded coverage since then.

Liability and Workmen's Compensation Insurance:

The Cooperative purchases liability insurance and Workmen's Compensation from a commercial insurance carrier. Settled claims from these risks have not exceeded liability coverage during the last three years.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

9. RISK MANAGEMENT (continued)

Unemployment Benefits:

The Cooperative provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

10. COMMITMENT

The Cooperative leased office space in Phillip, South Dakota under a 5 year lease. The lease is for \$425 per month. Rent expense for the year ended June 30,2010 was \$5100.

Future minimum lease payments are:

Fiscal year 2011	\$ 5,100
Fiscal year 2012	5,100
Fiscal year 2013	<u>5,100</u>
TOTAL	<u>\$15,300</u>

11. OTHER POST EMPLOYMENT BENEFITS

Plan Description:

The Three Rivers Special Services Cooperative (the Coop) Post-employment Health Care Plan is a single-employer defined benefit healthcare plan which provides medical benefits to eligible retirees and their spouse. The Plan is authorized by SDCL 6-1-16 and is administered by the Coop. The Plan does not issue a stand-alone financial report.

Funding Policy:

The contributions of plan members and the Coop are established by Coop policy. The required contribution is based on projected "pay-as-you-go" financing requirements, with an additional amount to pre-fund benefits as determined annually by the District. For 2010 the required contribution to the plan was \$2,926. Since no contribution was made in fiscal 2010 the Coop accrued a liability of \$2,926, as of June 30, 2010.

Annual OPEB cost and Net OPEB Obligation:

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

11. OTHER POST EMPLOYMENT BENEFITS (continued)

The Coop's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed thirty years.

The following table shows the Coop's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the Coop's net OPEB obligation to the Plan.

Annual required contribution	\$ 2,926
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB Cost	<u>2,926</u>
Contribution made	<u>-</u>
Increase in net OPEB obligation	2,926
Net OPEB Obligation, Beginning of year	<u>-</u>
Net OPEB Obligation, End of year	<u>\$ 2,926</u>

The Coop's annual OPEB cost is \$2,926 for fiscal 2010, of which the pay-as-you-go cost was 69% or \$2,019.

**Funded Status:**

The Plan is on a "pay-as-you-go" basis, therefore it is not funded as of June 30, 2010.

**Actuarial Assumptions:**

The June 30, 2010 actuarial valuation was compiled using the "alternative measurement method" actuarial cost method. The assumptions included a 4.5% rate of return (net of administrative expenses) and an annual health-care cost

**THREE RIVERS SPECIAL SERVICES COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

11. OTHER POST EMPLOYMENT BENEFITS (continued)

trend of 10% initially, grading to 5% over 6 years. The amortization period of the unfunded liability is 30 years.

The following table shows the Coop's status and funding progress of the plan:

Status and Funding Progress	Valuation Date June 30, 2010
Actuarial Accrued Liability	\$ 12,242
Actuarial Value of Plan Assets	-
Actuarial Accrued Liability ((AAL)	12,242
Ratio	0.0%
Payroll (active plan members)	\$ 621,422
Percentage of Covered Payroll	2%



**THREE RIVERS SPECIAL SERVICES COOPERATIVE  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Interest earned	\$8,000	\$8,000	\$10,629
Other local revenues:			
Contracted education services	1,366,695	1,445,497	1,599,604
Other	163,302	163,302	35,418
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants received from federal government through state	672,970	674,970	401,644
Total Revenues	2,210,967	2,291,769	2,047,295
Expenditures:			
Instruction:			
Special programs:			
Other	57,446	57,446	55,750
Support Services:			
Pupils-			
Psychological	0	11,954	11,953
Speech pathology	199,209	229,654	199,655
Instructional staff-			
Improvement of instruction	1,161,833	1,198,236	1,055,064
General administration-			
Board of Education	15,545	15,545	12,057
School administration-			
Other	113,349	113,349	179,100
Business-			
Fiscal services	48,061	48,061	42,350
Central:			
Planning	254,629	254,629	154,545
Community Services:			
Custody and care of children	360,895	362,895	316,877
Total Expenditures	2,210,967	2,291,769	2,027,351
Net Change in Fund Balance	0	0	19,944
FUND BALANCE, BEGINNING	867,217	867,217	867,217
FUND BALANCE, ENDING	\$867,217	\$867,217	\$887,161

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with  
Final Budget  
Positive  
(Negative)

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\$2,629

154,107  
(127,884)

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(273,326)

---

(244,474)

---

1,696

1  
29,999

143,172

3,488

(65,751)

5,711

100,084

---

46,018

---

264,418

19,944

---

0

---

\$19,944

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**THREE RIVERS SPECIAL SERVICES COOPERATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2010**

1. Budgets and Budgetary Accounting:

The cooperative followed these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to the first regular board meeting in May of each year the board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the board at the first regular meeting held in the month of May each year.
3. The proposed budget is published for public review no later than July 15 of each year.
4. Public hearings are held to solicit taxpayers input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total and may be transferred by resolution of the board to any other budget category that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.

**THREE RIVERS SPECIAL SERVICES COOPERATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2010**

9. Unexpected appropriation lapse at year-end unless encumbered by resolution of the school board. No encumbrances were outstanding at year-end.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund.
11. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that the GAAP financial statements report capital outlays separately from current expenditures, but the budgetary statements report them together with current expenditures in the budgetary category to which they relate.